RAIN INDUSTRIES LIMITED

RIL/SEs/2020 November 6, 2020

The General Manager Department of Corporate Services BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai-400 001	The Manager Listing Department The National Stock Exchange of India Limited Bandra Kurla Complex Bandra East Mumbai – 400 051

Dear Sir/Madam,

Sub: Transcript of Earnings Conference Call – Reg.
Ref : Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, please find enclosed herewith Rain Industries Limited Transcript of Earnings Conference Call on Unaudited Financial Results for the third quarter ended September 30, 2020.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited

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"RAIN Industries Limited Q3 2020 Earnings Conference Call"

October 30, 2020

MANAGEMENT: **MR. JAGAN REDDY NELLORE – VICE CHAIRMAN, RAIN INDUSTRIES LIMITED**
MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC.
MR. T. SRINIVASA RAO – CHIEF FINANCIAL OFFICER, RAIN INDUSTRIES LIMITED

Moderator: Good evening, ladies and gentlemen. On behalf of RAIN, we welcome all the participants to the Third Quarter 2020 Earnings Conference Call of RAIN Industries Limited. Speakers on today's call are Mr. Jagan Reddy Nellore – Vice Chairman of RAIN Industries Limited; Mr. Gerard Sweeney – President of RAIN Carbon Inc.; and Mr. T. Srinivasa Rao – Chief Financial Officer of RAIN Industries Limited.

As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

During the conference call, management will be referencing and discussing a slide show presentation which is available for viewing on our website at www.rain-industries.com in the Investor Relations section. It is recommended viewing this presentation while listening to the management's discussion.

Before we begin, management would like to mention that some of the statements made in today's discussion may be forward-looking in nature, that could be affected by certain risks and uncertainties. The company's actual results could differ materially from such forward-looking statements.

Now if you could turn to Slide 3, I would request Mr. Jagan Reddy to provide an update on key developments within the RAIN Group. Thank you, and over to you, sir.

Jagan Reddy Nellore: Thank you. Good evening to everyone. I hope everyone is staying healthy and safe. Many parts of the world are entering a second and even third wave of Coronavirus. This resurgence serves as a stark reminder to all of us that we cannot let our guard down or become complacent.

To ensure the health and safety of our personnel and to safeguard the operation of our facilities, we reinstituted some of the strict measures that were in place at the height of the pandemic, including mandating that RAIN personnel work from home to the extent possible, limiting travel between RAIN locations, and a continued ban on travel except in connection with essential business.

A shutdown of any production lines or facilities due to COVID-19 could have a significant impact on our earnings, our ability to meet customer requirements and reputation as a company. The safety of our employees will continue to be our top priority as we continue operations during the pandemic.

Turning to Slide 4 of the presentation. When we entered third quarter of our company, our company and much of the world were hoping for a V-shaped recovery as the global economy began to rebound from the initial outbreak of COVID-19. While we did see some recovery, it quickly flattened. Our third quarter was characterized by an increase in volumes offset by tightening margins. This in part, was the result of a change in product mix due to the sell-off of certain inventories accumulated in Q2.

Revenues of Rs. 25.66 billion for the quarter was an increase of approximately 9% compared to Rs. 23.61 billion during Q2, and our adjusted EBITDA of Rs. 5.2 billion during the quarter was an increase of approximately 19% compared to Rs. 4.3 billion during the second quarter of 2020.

Performance improved as the global economy began to return to normal after the near worldwide shutdown during second quarter. Proactive measures taken in second quarter to increase finished product storage capabilities allowed us to wait out the adverse commodity price movements and meet customer demand during third quarter as they restocked inventories. However, during third quarter and even now in fourth quarter, multiple hurricanes have significantly impacted our U.S. Gulf coast calciners as this seemingly endless hurricane season continues to assault the Louisiana coast.

Hurricane Laura made a direct hit on our Lake Charles facility in late August. The Category 4 hurricane and its 150 mile-per-hour winds left much of the region without electricity, sewage treatment or clean water. This was the strongest hurricane to hit Louisiana in the past 150 years, and our Lake Charles calcination and energy facility suffered a significant damage and has been undergoing restoration after the event.

For the past eight weeks, it has been an all-hands-on-deck at Lake Charles making needed repairs, and I am pleased to report that we have restarted one kiln as of 22nd October and expect to restart the second kiln as well as production by end of this week. To date, we have lost over 60 days of operating time, and approximately 32,000 metric tonnes of CPC sales, which we could not fulfil from our other locations due to quality or production constraints.

Looking ahead to the fourth quarter, the prospects for near-term economic improvement are challenging as demand remains flat, and low crude oil prices continue to have a negative impact on our margins. The fourth quarter is also one where our seasonal products see reduced demand as customers manage year-end inventory levels. Finally, during the fourth quarter, we will have an unusual number of plant turnarounds occurring due to delays related to Coronavirus, which will impact total plant through-put.

That said, on the horizon, there are some bright spots and reasons for optimism once we get to 2021. China's economy is roaring back after being virtually shut down at the beginning of the year due to COVID outbreak. Outside of China, improved pricing in aluminium is having a stabilizing effect on smelters in North and South America, which should secure volumes for our carbon products. In addition, we are seeing increasing demand from titanium dioxide producers.

In our Cement business, there was an increase in volumes and revenue by approximately 26% and 38% respectively compared with second quarter. The sales volumes have improved across all regions where we operate. The EBITDA has improved by Rs. 518 million compared to second quarter mainly driven by higher margins and lower costs. With good monsoons in South India, the rural economy should provide strong impetus to the construction activity and thereby the cement demand over the next several quarters.

With this business update, I will now turn over the call to Gerry to take you through the industry and other business updates on Slide 5.

Gerry…

Gerard Sweeney: Thank you, Jagan. Good morning everyone. It is a pleasure to speak with you all again.

Turning to Slide 5, in the top left corner, we have our Carbon segment sales prices and volumes. While our CPC volumes were up due to the timing of shipments compared to Q2, CPC prices remained relatively flat. Simultaneously, Q3 saw GPC prices increase due to further-reduced availability, as refiners cut run-rates in the face of continued weakness in transportation fuel demand. Also, as previously mentioned, the busy hurricane season in the Gulf of Mexico intermittently closed many refineries. We believe that, as a result, GPC production decreased by approximately 600,000 tons, in a relatively short period of time. At the same time, in an effort to economize during a period of reduced throughput, U.S. refineries have increasingly switched to lower-quality crudes, which results in production of higher-sulfur GPC. The resulting increased tightness in the anode-grade GPC market is expected to continue, but we are already seeing an uptick in CPC prices in Q4, which indicates we should see a normal adjustment period as prices reset in Q1 of 2021.

Looking at coal tar pitch sales, volumes were down due to curtailed aluminium smelting capacity as an aluminium major adjusted its global smelting portfolio to match market demand and we also saw weakness in the graphite industry. The weakness in demand not only reduced our volumes, but was also the primary driver of reduced CTP prices and margins as well.

In terms of other carbon products, this sub-segment benefited quarter over quarter from resumed global automotive industry production, following a near halt in manufacturing between mid-March and mid-May. Similarly, demand for tires improved as stay-at-home orders were lifted and people around the world began driving again.

From a raw materials perspective, we expect continued recovery in the steel industry to improve availability and secure our ability to maintain raw material supplies at an appropriate price.

Moving to the Advanced Material segment. We saw strong demand for our seasonal products, continued strength in electric vehicle sales, increased demand from the automotive industry and some strength in the construction industry.

A significant performance improvement we have seen this year was from the closure of our Uithoorn facility in the Netherlands. We are benefiting from the consolidation of resins production into our Duisburg facility in Germany, which has increased margins and improved our utilization rates. As a reminder to all, this initiative reduced over $8 million of operating expenses from this business and eliminated some low margin products from our portfolio.

In terms of the aluminium market, LME prices are at their highest levels in the past year and a half. In conjunction with that, LME inventories are lower due to strong demand from China, as smelters return to producing value added aluminium for customers versus standard P1020 for sale to the LME inventories. While we saw the announcement of one smelter closing, the threatened closure of another and a 40% reduction in production at a large anode plant during Q3, we believe these will be, to some extent, offset by plans to ramp-up production at other smelters in the European and Latin American regions. Barring another prolonged COVID shutdown, we believe that aluminium demand and pricing will continue to be strong in 2021.

Turning to Slide 6, regarding our major projects. As we said in our previous call, our hydrogenated hydrocarbon resins plant in Germany is producing our NOVARES pure water-white resins, and we are working with our customers to fine-tune and qualify the resins for their various applications and formulations. We are comfortable with where we are during this early stage of plant operation.

During Q4, we expect to resume construction at our facilities in the United States and India, that will produce our engineered and value-added anhydrous carbon pellets or ACP. A comparative study demonstrating the differences and performance characteristics of both calcined ACP and CPC, which was recently undertaken by an internationally recognized carbon laboratory, has been completed and its findings are in the process of publication. Once production begins at those plants next year, ACP will enable us to turn otherwise inferior GPC into a marketable material that offers energy and emissions benefits to anode producers and aluminium smelters. In addition, the fact that the composition of ACP allows us to utilize fine-sized petcoke particles as a raw material, rather than incinerating them during calcination, will serve to both improve our carbon productivity and lower our plant emissions even further.

Finally, at our new vertical-shaft calcination plant in India, we are nearing the end of construction after what has likely been the most challenging era ever in which to build a new plant in India, due to the COVID-related impact on the nation's entire workforce. Our aim in designing the plant, with its high carbon recovery rate, emissions-cleaning technology, fertilizer byproduct and electricity generation through waste-heat recovery, was to create the most environmentally friendly calcination plant in the world. Further enhanced by the flexibility of the integrated CPC production plant, our state-of-the art site will benefit from the ability to convert raw material streams that are normally not suitable for calcination, including those readily available in India, into high-quality products for our global customers. While we complete the final stages of construction, and in parallel, await further clarity from the Indian authorities on the shaft calciner's raw material feedstock, we look forward to the operation of the site, which will be ready to commence production within a few months of mechanical completion.

With that, I will now turn the call over to Srinivas who will take you through the consolidated financial performance of RAIN.

Srinivas, over to you.

T. Srinivas Rao: Thank you, Gerry, and good evening everyone. It is a pleasure to speak with you today.

In the Third quarter of 2020, RAIN achieved consolidated net revenue of Rs. 25.52 billion, compared to Rs. 29.78 billion in the Third quarter of 2019, a decrease of Rs. 4.26 billion or 14.3%. This resulted from a decrease in revenue of Rs. 3.69 billion, or 19.2% decrease from our Carbon segment, and Rs. 1.06 billion or 13.0% decrease from our Advanced Materials business segment, off-set by an increase of Rs. 0.49 billion or 20.8% increase from our Cement business segment.

RAIN's consolidated adjusted EBITDA increased by Rs. 446 million compared to the prior year. This resulted from an increase in the Advanced Materials segment by Rs. 349 million and an increase in the Cement segment by Rs. 569 million, offset by a decrease in Carbon segment by Rs. 472 million.

Now, turning to the next slide on Carbon segment performance,

Slide #8. Revenue from Carbon segment was Rs. 15.55 billion for the quarter ended September 30, 2020, compared to Rs. 19.24 billion for the same period last year.

During the quarter, the sales volume decreased by 1.1% and the average blended realization decreased by 18.2% due to the changes in the demand-and-supply situation in North American markets and competition in the Asian markets coupled with the changes in the fuel-oil quotations and lower demand from aluminium, carbon black, construction and graphite industries, which was offset to some extent by the appreciation of U.S. dollar and EURO against Indian rupee by 5.6% and 11.1% respectively.

Overall, due to the aforesaid reasons, revenue from the Carbon segment decreased by 19.2% in third quarter 2020, as compared to the third quarter of 2019.

Adjusted EBITDA of the Carbon segment decreased by about Rs. 472 million due to the margin pressure.

Turning to the next slide on the performance of Advanced Materials.

Revenue from our Advanced Materials segment was Rs. 7.12 billion for the quarter ended September 30, 2020, as compared to Rs. 8.18 billion for the same period last year. During the quarter, there was a 15.3% decrease in volumes driven by reduced demand due to the temporary shutdown of a few customers' facilities (due to COVID-19) and lower demand from rubber, adhesive and construction industries. Volumes were also impacted by the closure of our Uithoorn facility in the Netherlands. During Q3 of 2020, the average blended realization increased by about 2.8%, driven by changes in the customer mix, and there was an appreciation of EURO agonist Indian rupee by 11.1%.

Due to the aforesaid reasons, revenue from Advanced Materials segment decreased by about 13.0% during third quarter of CY 2020 as compared to the third quarter of CY 2019.

Adjusted EBITDA for the Advanced Materials segment increased by Rs. 349 million due to higher realizations in engineered products and resins compared to third quarter of 2019, coupled with the appreciation of EURO against Indian rupee.

Moving on to next slide on Cement business.

During the third quarter of CY 2020, Cement revenue increased by about 20.8% compared to third quarter 2019, due to increase in realizations by 21.8%, which was partially offset by a decrease in volumes by about 1% as compared to third quarter of 2019.

EBITDA from Cement business segment increased by Rs. 569 million due to higher margins and lower costs.

Moving to the next slide on debt.

We ended the third quarter with total debt of US$ 1,224 million, including working capital and other loans of US$ 94 million. Net debt was US$ 1,004 million and, based on LTM EBITDA of US$ 267 million, we ended the quarter with Net-debt to EBITDA ratio of 3.8x. Despite the ratio being above our target level, we are still comfortable; as our average borrowing cost stood at about 5% and we expect it to be remain stable since the floating-rate portion of our long-term debt is tied to the Euribor, which is still negative.

Cash outflow on our capital expenditures and plant turnaround costs for the nine months ended September 2020 totaled US$ 122 million, of which US$ 60 million was for our two major expansion projects Hydrogenated Hydrocarbon Resin plant in Germany and Vertical-shaft kiln project in Vishakhapatnam, India. Referring to the earlier comments about the resumption of activity on our deferred expansion projects, and compliance projects that could not be delayed, we expect cash outflows on a full year basis to increase versus previous guidance.

Regarding liquidity, we ended the quarter with US$ 208 million of cash in hand and undrawn revolver credit facilities of US$ 111 million.

As evidenced by our cash balance, we are preserving cash proactively to be prepared for any unforeseen event. We continue to watch our liquidity position closely to ensure that our ability to access credit lines is not hindered by our performance.

With that, I will now turn the call over to the operator for Q&A session.

Operator...

Moderator: Thank you very much. We will now begin the question and answer session.

The first question is from the line of Gunjan Kabra, Niveshaay. Please go ahead.

Gunjan Kabra: Sir, just one basic question from my side, with respect to aluminium industry and the Carbon segment of the company. Sir, you are seeing huge demand from China, one country is going to face lockdown and there is pick up in the demand in another country. So with such different market environment right now, what are the positives that you see in the industry that will continue to drive the profitability and help in maintaining margins going forward, say, for next two quarters? And what are the problems or the concerns that you see going forward in this environment that you all are taking care of? Like, I expected the CTP volumes to be a little on the higher side quarter-on-quarter, but on the contrary it decreased. So what are your views on the industry?

Gerard Sweeney: Thanks for your question. From a macro sense, our business in the Carbon segment, both the calcined petroleum coke, and the coal tar pitch is not necessarily one that's focused on price needing to be at a certain level. We can make money on our products at a high price point or at a low price point; it is all about the ability to buy the raw materials at an effective price. The turbulence that we have seen in the market this year with COVID and the resultant lockdowns has left essentially the disruption for the last two quarters, and then also into the fourth quarter, the disruption of price versus supply. So, price of our finished products versus supply of our raw materials. We foresee that correcting and stabilizing as we just mentioned in our comments. So specific to your question on the Carbon segment is that we are already seeing the CPC price, while we had less demand, that demand has now stabilized. We are already seeing the demand picking up a little bit and the price of CPC picking up in concert with the raw material price hikes that we have seen. So that is really the only thing that we are seeing. Likewise, in the coal tar pitch side of it, we saw some of the closures caused by the disruption in market, take demand off so that we were pushing volumes into a market that didn't want them. We see those volumes now stabilizing going into next year. And we have the opportunity to reset our raw material prices with higher production from the steel industry. And as a result, we can reestablish our margins. So that's where we see the confidence moving forward in 2021, that will have more stable supply and demand, and therefore will have more stable margins and more traditional margins.

Gunjan Kabra: Thank you so much and all the best.

Gerard Sweeney: Thank you.

Moderator: Thank you very much. The next participant is Viraj Mehta from Equirus Securities. Please go ahead.

Viraj Mehta: Congratulations for good set of numbers in a testing time. I had two questions. First, if I look at a broader picture of the company, next year, with our expansion coming in, and also world probably normalizing and no new big CAPEX coming in, would it be fair to say that potentially next year will be one of the best cash flow years for the company, free cash flow year for the company?

Gerard Sweeney: Thank you for your question. And I would like to hope that if goes from your lips to God's ears. But we can't really comment on forward looking types of situations. We are seeking to reduce our CAPEX and we are hoping for more positive market conditions for 2021, which could help us. But at this point, in a world that has shown us virus and record U.S. Gulf hurricane activity, for now we are looking forward to the end of hurricane season, we just hopefully finished our last hurricane in Louisiana yesterday. We are hoping for the end of this and just, let's call it like, calmer waters and calmer operating environment for 2021.

Viraj Mehta: And I wanted to ask this to Mr. Reddy. Sir, if we look at last few years, we have all always come up with CAPEX of approx $100 million, $150 million every year. And I understand we have $60 million, $70 million of recurring CAPEX, but post this expansion, are there any big CAPEX in line for us for next 18 months?

Jagan Reddy Nellore: No, there is nothing in pipeline for us. Once we complete the HHCR project and also the vertical shaft calciner project, we have no major capacity expansions to make.

Viraj Mehta: So, post that whatever cash flow we will make, is it fair to assume that we will use that in debt reduction?

Jagan Reddy Nellore: Yes. Because we have no other use for cash, we can actually use it for debt reduction. And starting 2022 March, we will not have any prepayment penalties also on our bonds. So we can actually start prepaying them.

Viraj Mehta: Question is because our stock today trades at multi-year lows of last few years, has the Board considered a proposition for a buyback, please?

Jagan Reddy Nellore: See, we are a holding company, so basically our cash has to come in the form of dividend to the holding company, so we have certain restrictions. But once the cash comes in we can evaluate several things and we will look forward to it.

Moderator: Thank you very much. Next question is from the line of Rohith from Marshmallow Capital. Please go ahead.

Rohith Potti: Thank you for the opportunity, I would request to the management to give please more clarity on when the three new CAPEX projects of ours, which is the HHCR, the vertical shaft and the ACP project, when do you expect them to start generating revenues for the business?

Jagan Reddy Nellore: HHCR project already commenced operations and you can see revenue from Q1 2021. And the vertical shaft calciner project hopefully, we are hoping that there will be certain changes in the government regulations, including new environmental regulations coming in, and as our calciner being the world's most environmental friendly or lowest emissions project in the world, we are hoping that we should get clearance to import. And once we get that, within the first quarter of getting the permission, we will start seeing revenues. Because we have a lot of demand for the product that is coming in, a lot of customers are approaching for that product. And we can actually simply be a import replacement, because India imports over 500,000 tonnes. So these two projects. And see, the ACP projects are basically for cost reduction, we don't sell that product to anyone, but we will actually be using it as a raw material, but they are going to reduce the cost of our production substantially because it enables us to use low density and non-traditional materials for which there is not that much demand, or there is good availability for that product in the market. So that is a reason why we think the ACP will help us reduce our raw material cost.

Rohith Potti: Two follow-up questions to this, sir. So the first one you mentioned about the environmental clearance for vertical shaft calciner project. Just a clarification, to operate the facility we need an environmental clearance which is not there yet? Or is it related to the Supreme Court issue where you expect the approval to get to be able to import raw materials because it is an SEZ and it is an environmentally advanced plant that you are referring to?

Jagan Reddy Nellore: We already have all the permissions to operate the plant, all the environmental clearance have already been received. We are just awaiting the Supreme Court clearance for the import of raw materials.

Rohith Potti: Okay, understood. That was helpful. My last question is, it's a long-term question. If I see, in 2009-2010 the company had a market cap of around Rs. 1,500 crores. Cut to today, we are at a market cap of Rs. 3,500 crores, barring a brief period of around two years. I am a long-term shareholder in the company and I believe that you have created exceptional value inside the business through your acquisition and CAPEX. But given a publicly listed entity, the recognition in the market is not yet there. I just wanted to know your thoughts on, if you have any thoughts on why that is the case? And is there any plans to unlock the value that is in the company that you have built over the last decade in the future?

Jagan Reddy Nellore: Unfortunately, I cannot talk about the stock price, because it's something all we can do is run the company as well as we can, to the best of our ability. But I cannot comment on the investor perception for the company. But we always try to do the right thing for the company. That's all I can say. Thank you.

Moderator: Thank you very much. Next question is from Rahul Jain from Systematix Group. Please go ahead.

Rahul Jain: Sir, I want to understand your Carbon business better. So we have seen a good decline in the inputs, for example, fuel oil and other things and also price has corrected. Going forward, what is your view, so over the next six months in terms of how aluminium is shaping up? And what do you think on your margin front, do we have any linkage to aluminium price and the way we price our product?

Gerard Sweeney: As our comments indicated, the real positive that we have out there, and something we are all very pleased with, we just need our other circumstances to catch up to, is that the aluminium price globally is at an 18 month high. And so we really think that with that macro umbrella of positivity over the aluminium industry, that it will continue to firm up the positives. And even the reductions that we have seen will be overcome by capacity increases, essentially ramp-up of production in existing smelters. As far as our products are concerned, we are not indexed in any way to the aluminium price. The aluminium price moves off of its own supply and demand factors. But certainly, the level of the aluminium price and the health of the aluminium price affects over the long-term, the amount of production in the world. And it's that amount of production that we rely on to provide demand for really the vast majority of our Carbon product segment.

Rahul Jain: Right. And sir, what kind of market share do we have in this business? And in the sense, would you also give some colour on margins, so you think these kinds of margins are maintainable in future, I mean, you have any view on that?

Gerard Sweeney: The percent of market share is not easy to express when you consider China, because you can't quite understand exactly what's going on in China. But if we exclude China we are currently at roughly a 10% market share globally of the freely traded coal tar pitch and calcined petroleum coke products.

Rahul Jain: Right. And sir, just if I may squeeze in, do you sell your products on a contract basis or is it like a spot market?

Gerard Sweeney: No, the overwhelming majority of our Carbon products, I assume that's what we are talking about, are on long-term contracts.

Rahul Jain: With price participation?

T Srinivasa Rao: On a quarterly basis.

Moderator: Thank you very much. Next question is from Akhilesh Kumar from Afro Technologies. Please go ahead.

Akhilesh Kumar: I have one question. In last call, we were discussing about like we have been helped to avail any facility, relief packages announced in the Europe or any other country, have we availed anything or we are planning anything?

Jagan Reddy Nellore: We did actually take one PPP loan from the U.S. Government at about $6.2 million, so that is the only thing we have taken, because otherwise since we are operating and our cash flow is comfortable, we did not seek any other loans from the government or any government supported loans. This PPP loan actually is a forgivable loan, we are expecting that the $6.2 million we have taken is a forgivable loan. We expect the U.S. Government to open up the request for forgiveness for all those loans in the next one to two months. So then hopefully that should not be payable.

Akhilesh Kumar: Okay, I think quarter after quarter we are still getting stuck into the issue of getting the permission for our raw material GPC. This year also we got, like from last year the reduced amount of permission for GPC. Would that be sufficient enough for running our existing plant itself for the entire year?

Jagan Reddy Nellore: See, our existing plant, there is no problem, we have sufficient raw materials for running our existing plant. Only for SEZ plant where we have difficulty in getting material. But we are hoping that issue also should get resolved within a quarter.

Akhilesh Kumar: Okay. And the last thing what I have been asking every quarter but am getting the same reply. With the cement companies valuations and demand supply better, do we have any, like how long we have to wait to get that cement business to be demerged again or listed again?

Jagan Reddy Nellore: No, we have no plans. At this time if you see, this quarter actually cement is the one that really helped us. So, the global markets are a little turbulent, and we expect the Cement segment to do well going forward, because of the rural economies is going to improve considerably, and our presence mostly is in rural India. So at this time, we have no plans. Thank you.

Akhilesh Kumar: But it would like, say, help the shareholders getting the unlocking the value, like market cap in cement itself we will have around 2,000 market cap.

Jagan Reddy Nellore: As I said, we have no comments on that, please. Thank you.

Moderator: Thank you very much. Next question is from the line of Arvind Kothari from Nivesh India. Please go ahead.

Arvind Kothari: Congratulations on a very stable performance. I had a question related to the lag impact of the prices of GPC and CPC that you were alluding to in the opening commentary. So our channel checks has led us to believe that in China, actually, the CPC prices because of high operating rates in aluminium have gone up. But at the same time, the GPC prices have also gone up. So are we believing that the next quarter, maybe we will have higher GPC prices, the CPC prices will be able to increase only after the next quarter?

Jagan Reddy Nellore: Yes, we normally have a one quarter lag, at most two, but mostly its one quarter lag. So we expect in Q1 2021 the increased prices can be passed on to the customers.

Arvind Kothari: So the margins that we experienced this quarter might suffer in the coming quarter, is that what the correct assessment can be?

Jagan Reddy Nellore: Excuse me?

Arvind Kothari: The margin that you experienced, close to 20% this quarter, that might get affected in the next quarter? It might again recover in Q1, is that the correct assessment?

Jagan Reddy Nellore: See, again, our business is a little different because we cannot just go by the margins or percentages, because our raw materials fluctuate so will our finished products. The higher the raw material price and the higher the CPC price, but as the numbers keep increasing the margin as a percentage of revenues, actually you will see declining. Let's assume, we make $50 on $200, it may actually look like you are making 25%. And let us say on $600 you may make $100, the percentage may look very small, but actually in absolute terms you make more money. So the percentage is not a right way to look at it. But we think Q1 going forward, I think, the number should be better actually.

Arvind Kothari: Got it. Thank you. Another question was regarding, post-COVID we look at various industries, a very strong emerging trend is that the smaller operating guys are actually facing the heat and larger players are actually increasing their market share as well as margins. So, with respect to our industry, I know China is a grey factor, but leaving aside China, what do we see in our other geographies, is the competition lagging and small players maybe can give way towards in terms of gaining more market share and maybe higher margins going forward?

Jagan Reddy Nellore: Whatever we produce, going forward we expect to sell all our products.

Moderator: Thank you very much. Next participant is Vikram Sharma from Miraki Wealth Management. Please go ahead

Vikram Sharma: Sir, my question is, Germany has announced lockdown again. So what will be the impact of new lockdown announcement on our Germany business?

Jagan Reddy Nellore: It should not generally impact us because the industry and trade will continue. As was seen in the first lockdown, there was no impact on the industry or the trade. So we expect the industry to continue to run in Germany.

Vikram Sharma: Okay. And sir, another question is, with the shutdown of one facility in Netherlands, and we are also starting our new facility in Germany, so what will be the total change in employee cost and total operating cost with these steps? And what will be the sustained cost reduction in employee cost and operating cost from the shutdown of our Netherlands facility?

Jagan Reddy Nellore: It's about $8 million per annum.

Vikram Sharma: Savings?

Jagan Reddy Nellore: That's correct.

Moderator: Thank you very much. Next participant is Prateeksha from Equirus Small Finance Bank. Please go ahead.

Prateeksha: Sir, you mentioned that the total CAPEX incurred YTD is about $122 million, and out of that $60 million is towards the two projects that are going on. So is it correct to assess that the balance is maintenance CAPEX, and there will be no further maintenance CAPEX for this year?

Jagan Reddy Nellore: Basically, we actually incur about $65 million as maintenance CAPEX each year. So that is where we are limited.

Prateeksha: Okay. So basically, we have incurred the maintenance CAPEX for the year?

Jagan Reddy Nellore: We think so, more or less we are. But as we said, the hurricane Laura has actually damaged quite a bit, so basically we are incurring costs towards that. But we do expect to get insurance for that. So there will be some deductibles and other things that may impact. But overall, we expect that the maintenance CAPEX will be about $65 million plus/minus.

Prateeksha: Okay. And we have been seeing last two quarters, the quarterly depreciation is seeing a steady rise. The accelerated depreciation that we were to see because of implementation of New Accounting Standards for Leases, so what would be the increase in depreciation attributable to?

T. Srinivas Rao: It's about US$ 3 to 4 Million per quarter. So annual basis, about US$ 9 – 12 million, incremental depreciation is on account of the new lease standards introduced.

Prateeksha: Okay. And one last question. So, I think earlier we had mentioned that HHCR plant would start contributing to revenues Q4 onwards, so are we seeing any delay there? Or is there a new development on that front?

Jagan Reddy Nellore: There is delay by a quarter because of this COVID, because the travelling of technicians and other thing is becoming difficult. And we had a couple of issues during startup. So you can see revenues flowing in from Q1 in two months. But we are already supplying test quantities, it is not that the plant is stopped, we are supplying quantities to customers.

Moderator: Thank you very much. Next question is from Viraj Mehta from Equirus Securities. Please go ahead.

Viraj Mehta: Just one last question regarding the commencement of ACP plant. If on an average we were making, let's say, $75 per tonne as our margin, and just a theoretical example, post this ACP, how much will the margin be, will it be $10, $15, will it be $40, $50, just wanted to understand the delta this will bring?

Jagan Reddy Nellore: See, we cannot talk about particular margins, but I will tell you how it works. See, I am just going to give a couple of hypothetical issues, is that, if we actually take a good quality material, say, at $100, then a inferior grade quality maybe $50. But we cannot process the $50 material because the calciner will have difficulty in processing it. But what happens in an ACP plant is, we can actually take this $50 material, screen it, the course material actually directly goes into calcination and all the fines (low dense materials), almost 30%, 40% of the product actually can be used to make ACP. So basically, you are actually maximizing the usage, and at the same time you are bringing down the consumption of the overall material. So because of that, the density and other things improve. So it does add quite a bit value from that perspective. So, your ability to use inferior grade quality of raw materials will increase quite a bit.

Viraj Mehta: Sure. And how much money did we spend on this ACP plant?

Jagan Reddy Nellore: The ACP plant in U.S. is costing us about $22 million.

Moderator: Thank you very much. Next question is from Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: I have a few questions. First, can you just highlight as to what will be the CAPEX outflow in calendar year 2020 and 2021, based on what projects you already have in hand?

Jagan Reddy Nellore: See, the CAPEX outflow some in 2020 will be somewhat of $135 million, total, including maintenance CAPEX.

Rakesh Vyas: And calendar 2021 would be how much, the pending CAPEX for the ongoing project?

Jagan Reddy Nellore: The only project that will be there to the ACP project in 2021, because since we have substantially already completed the cost, we have very nominal cost only to be invested, at least in the U..S plant. So we think, total, including maintenance CAPEX next year, maybe about $75 million to $80 million.

Rakesh Vyas: Okay, that helps. Secondly, can you just highlight as to what is the current issue with respect to the vertical shaft in India? You highlighted it's only the Supreme Court clearance that is pending for import of the raw material, all other clearance is already in place, is that correct understanding?

Jagan Reddy Nellore: Yes, please. We have all the approvals in place, so we just require Supreme Court's permission to import. But we have certain advantages also, is that first of all this is environmentally the best plant in the world. And second advantage is, we being a SEZ plant, we have certain special permissions. So, basically we need to get the clarification from the honorable Supreme Court that in accordance with the SEZ rules we can actually import materials. So, we are hoping that we should get something in the next quarter or so.

Rakesh Vyas: Sir, correct my understanding. I thought earlier plan was to import material, and because it is part of SEZ, use it to blend and sell it globally as well, especially in Middle East, etc. Even in that context, you still need a lot of clearances and importing material, if it was supposed to be for domestic market?

Jagan Reddy Nellore: It is just Supreme Court clearance, please, it's not other clearances, it is just Supreme Court clearance. We have all the other approvals, just Supreme Court clearance because it is the highest court in the country, so the government also is looking for their guidance in giving the approval. Though it's an SEZ Unit and we are permitted to technically import even prohibited items also into the country. But government also is looking to the guidance of the Honourable Supreme Court.

Rakesh Vyas: Sure. And finally, if you are successful in doing a reasonable cost saving through ACP, what is the further scope globally for you, in general, to expand this particular framework?

Jagan Reddy Nellore: See, once we complete the plant in the U.S. and in India, once we start using it, see, as you are aware, lot of aluminium smelters are talking about the green initiatives and green aluminium metal. And if you want to get there, you basically have reduced your carbon footprint, and ACP actually helps reduce the carbon footprint. So, that is one thing. And also, when we are making calcined petroleum coke, especially in our plants both in India or our plants where we have cogeneration, you are actually reducing their overall carbon footprint because you are actually replacing the burning of fossil fuels in thermal power plants, and sulphur dioxide also coming down. So, this plant reduces the over-all emissions in India, similarly around the world. So, ACP also further helps that. So, from an environmental perspective, it is more sustainable. As more and more people are becoming more environmentally aware, it becomes more sustainable business.

Moderator: Thank you very much. Next participant is Shriram Ramdas from Green Portfolio. Please go ahead.

Shriram Ramdas: I just got one question. With the anti-China sentiments, are we seeing any engagements with newer customers due to this factor, may be in the CPC or cement, etc.? Thank you.

Jagan Reddy Nellore: Can you come back with the question, I couldn't listen?

Shriram Ramdas: With the anti-China sentiment, are we seeing any new engagements with new customers due to this factor, because of anti-Chinese sentiment, maybe for CPC or Cement or Advanced Materials? Thank you.

Jagan Reddy Nellore: It is not about anti-China sentiment, the issue is Government of India is promoting more and more of Make in India initiative, so they are trying to see whatever can be produced in India and can be consumed here. So, I think that will be a great initiative going forward. But, as we said, because there is a shortage of green petroleum coke in India, so products like ACP that enables us to use the available inferior grade quality material permits us to increase the India content. For example, the Indian public sector aluminium companies actually have already put in a requirement that a preference will be given where the 50% or more consumption of Indian raw materials in the manufacture of CPC. So, plants like ACP will help us to get to that 50% or more. There are as restrictions to import from China, but only one thing is there is more of a Make in India initiative.

Moderator: Thank you very much. Next question is from the line of Arvind Kothari from Nivesh India. Please go ahead.

Arvind Kothari: Sir, I wanted to ask about the cement capacity utilizations, what would they be currently and what are we planning next year? Because of the factors that we are seeing our competitors like Sagar and also reporting excellent EBITDA and utilization numbers.

Jagan Reddy Nellore: Yes. So basically, utilization is about 60%, I would say, 60%, 65% capacity. But what is helping our prices is the logistics capability, because initially the logistics was what was helping, because travel to longer distances was difficult. So that's the reason why margins have improved. But now I think these prices look sustainable because the demand is also increasing. And as the cement companies probably ramp up production, it still should be sufficient to meet the increasing demand.

Arvind Kothari: Okay, good. And sir, regarding the vertical shaft calcining, the earlier calls we were confident that we would be utilizing local material also to start the plant. Now, are we taking another view that we will be waiting for the approval? Or if there is delay, will we be going ahead and starting the plant with the locally available material?

Jagan Reddy Nellore: See, what has happened was, due to the COVID and all it has changed certain plans, because we were actually planning to complete both the vertical shaft calciner and ACP plant simultaneously. But because of the COVID, the skilled manpower available at the site for construction has come down below 50% than what was there at during peak. So because of that, we actually had to stop the construction of ACP Plant. So our target was to complete the vertical shaft calciner first and put ACP plant on hold. So we are nearing completion of the vertical shaft calciner. And once that is done, then we are going to start taking up the construction of ACP plant. So once the ACP plant starts, then we can actually start using domestic raw-materials. But that will take about six months to complete. So till that time, but simultaneously we are also working on our ability to import material. So we will have both the options.

Arvind Kothari: And the operating units, in China in particular, for aluminium have been going up. Are we experiencing the same thing in Europe and U.S. maybe, and India? I mean, is there a lag demand kind of impact, or there is some higher demand which we feel is sustainable?

Gerard Sweeney: I am sorry, I didn't catch the question.

Arvind Kothari: My question is that the operating rates of smelters in China has been going up and they are also importing material in large quantities for the first time. So going ahead, do we feel that it will have a trickle-down effect in other geographies that we operate mostly in, U.S., Europe and maybe in India?

Gerard Sweeney: Yes. China is self-contained, so as far as the impact that China will have on us, the products that they are importing are more the raw materials for aluminium production, but their carbon is pretty self-sustaining. What it can do to help us is essentially they will be more reliant on their own supply and export less product, that will help the markets outside of China, particularly in South Asia as well as in North America. So that's really the only potential impact or benefit that we would see with increased production. But I would agree with you that aluminium production in China is continuing to grow; their economy is now doing well after the covid lockdown.. So it can have a beneficial effect for us in 2021.

Arvind Kothari: So, are any clients engaging us for their expanded capacities or high working rates?

Gerard Sweeney: in China?

Arvind Kothari: Which you are supplying to, are they giving you feelers for high operating rates next year, so maybe we start preparing for that currently?

Gerard Sweeney: I am sorry, are you talking about China or anywhere in the world?

Arvind Kothari: Anywhere in the world. I mean, particularly our clients, like maybe ALCOA. Are those guys telling us that they are preparing for high working rates from next year and hence they would want us also to supply more material?

Gerard Sweeney: Some customers are expected to run at higher operations.

Jagan Reddy Nellore: See, basically what is happening is the imports from China have come down, both green petroleum coke and calcined petroleum coke. So basically, the customers are looking for more material from other suppliers, that includes us. So that's why we think 2021 will be more bullish compared to 2020.

Moderator: Thank you very much. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Jagan Reddy for closing remarks.

Jagan Reddy Nellore: Thank you. During the third quarter, we saw the global economy begin to reopen and demand for our products increase in July and early August. However, that uptick in activity flattened as the quarter ended, and we are now looking at the fourth quarter that could be partially impacted by a resurgence of Coronavirus.

The good news - if that's an appropriate phase during this turbulent time, is that our company is well-positioned to ride out another COVID wave.

Throughout our operations, we are doing everything we can to keep our people safe and our plants running so we remain a strong link in the global supply chain. We are also continuing to carefully manage our costs and capital expenditures while constantly looking for ways to turn what we have learned and how we have adapted during the COVID pandemic into competitive advantages.

Moreover, once the world returns to normal, we are poised to capitalize on the investments we have made in our major projects, including:

- Our Hydrogenated Hydrocarbon Resins facility in Germany, that will enable us to meet growing demand for cleaner resins from packaging and adhesives industries and serve as the cornerstone of our Advanced Materials business.
- Our vertical shaft calciner in India, that will be the most environmentally friendly plant of its kind in the world, while facilitating a high-carbon recovery rate and waste-heat electricity generation.
- And our anhydrous carbon pellet production facilities that will enable us to create an engineered and value-added alternative to CPC that will offer energy-saving and emission benefit to anode producers and smelters.

Finally, we will be closely monitoring the global response to the results of next week's Presidential Election in the United States. While there could be a range of unpredictable reactions in the coming months, we are optimistic that business conditions will improve next year - COVID notwithstanding.

These are uncertain times to be sure. But one thing you can be certain of is that RAIN is laser focused on doing what is necessary to meet the needs of our customers and fulfil the expectations of our shareholders, employees, the communities where we operate.

Thank you for joining us today. I hope you and your families remain healthy and safe until we speak with you again in the early 2021. Thank you all.

Moderator: Thank you very much. On behalf of RAIN Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.